

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

OPEN SESSION

SUBJECT: Quarterly Litigation Report

ITEM NUMBER: 15

ATTACHMENT(S): yes

ACTION: _____

DATE OF MEETING: October 7, 1998

INFORMATION: X

PRESENTER: Mr. Waddell

The Quarterly Litigation Report has been prepared as directed by the Investment Committee. Non-investment litigation will be reported in the Retirement Board meeting.

STRS QUARTERLY LITIGATION REPORT
October 1998

PROPERTY ADVISOR: CB Richard Ellis (formerly Westmark Realty Advisors)

Wilshire Landmark I

Wang v. STRS (1994) STRS Counsel: Haight, Brown, & Bonesteel, legal counsel retained by insurance company. Alleged elevator injury at property. Attorneys of insurance company have responded to complaint.

STRS v. Hamburger Hamlet (1995) STRS Counsel: Cox, Castle & Nicholson. Tenant has contacted advisor stating they would not be able to make payment due to financial problems. Tenant has filed bankruptcy. Claims have been filed on behalf of STRS in the amount of \$11,388.77 and is being monitored by counsel. Tenant has rejected lease in Bankruptcy and will vacate premises. Landlord has demanded that tenant remove personal property or the property will be auctioned off. Bankruptcy court settlement offered by tenant to creditors for \$.10 on the dollar. Settlement has been approved by Bankruptcy Court. Case closed.

Northrop Gruman Plaza

Sanders v. STRS, et al. (1994) STRS Counsel: Haight, Brown and Bonesteel. Alleged injury as a result of elevator malfunction. Insurance Company has retained counsel on behalf of STRS. Response to complaint has been filed. Plaintiff's deposition taken March 2, 1995. Millar Elevator (cross-defendant) has filed a governmental claim against STRS with the Board of Control. Upon rejection Millar Elevator will file a cross-complaint against STRS. Court has ordered mediation set before April 1996. Millar Elevator has accepted STRS tender of defense and agreed to indemnify STRS. Trial presently set in Santa Monica Superior Court.

STRS v. Beverly Hills Management (1997) STRS Counsel: Cox, Castle & Nicholson. Landlord initiated action due to nonpayment of rent by tenant. Tenant counter-claimed that odor from other tenant's kitchen interfered with tenancy. Tenant abandoned premises and matter will be resolved via mediation.

STRS v. Pearlman Group (1998) STRS Counsel: Cox, Castle & Nicholson. Tenant breached lease by non-payment of rent. Unlawful detainer action initiated by STRS attorneys resulting in tenant and sub-tenants vacating building. Security deposit applied to past due rent, advisor reviewing availability of assets of tenant to determine if further legal action justified.

STRS v. Sun-Rise Tae Kwan Do (1997) STRS Counsel: Cox, Castle & Nicholson. Tenant breached lease resulting in a service by landlord of a Notice to Pay or Quit on tenant. Tenant has filed a Chapter 7 Bankruptcy. Legal counsel has filed proof of claim on behalf of STRS.

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Chudnousky v. STRS (1995) STRS Counsel: Wilner, Klein & Siegal. Insurance carrier retained counsel on behalf of STRS. Plaintiff alleges she fell over a brick in plaza and broke her hip. Claim being processed through insurance carrier. Lawsuit was filed and served on STRS in January 1997. Court has requested parties enter into mediation which is scheduled for October 8, 1997. Plaintiff has offered to settle case for \$75,000. The mediation hearing resulted in a \$20,000 settlement offer to plaintiff to settle case.

STRS v. Northrop Gruman (1998) STRS Counsel: None assigned at this date: Claim made by advisor to tenant for common billing for electricity. Tenant and advisor are working on resolution of issue without litigation and claim by Landlord may be offset by outstanding credits accumulated by tenant.

STRS v. Mercantile National Bank (1998); STRS Counsel: Cox, Castle & Nicholson. Claim made by landlord to tenant for deferred billing of electricity which tenant has disputed. Advisor and tenant attempting to resolve issue without litigation.

Rancho Pacifica

STRS v. Nittok Tile (1997) STRS Counsel: Cox, Castle & Nicholson. Tenant has abandoned space and filed bankruptcy. STRS has filed a claim with the bankruptcy trustee through its counsel.

STRS v. Specialized Testing (1998) STRS Counsel: Cox, Castle & Nicholson. Tenant was under an agreement as a result of a prior default which included a stipulated judgment. Tenant has again defaulted and the stipulated judgment enforced removing tenant from possession of the premises. Landlord has obtained possession of the premises. Review of assets of tenant being conducted to determine if collection action warranted.

STRS v. B & J Medical Lab (1998) STRS Counsel: Cox, Castle & Nicholson. Tenant defaulted on lease and has vacated property. Agreement is being negotiated for tenant to pay arrearages.

Moscovitch v. STRS, et al. (1997) No STRS Counsel at this time. Tenant alleges a slip and fall in property claiming floors were over-waxed. Plaintiff has requested payment of \$500.00 for release of claims, the payment of which has been denied.

9720 Wilshire

STRS v. Inman, Weisz & Stein. (1998); STRS Counsel: Cox, Castle & Nicholson. Tenant has vacated space and is presently in default on rent due and owing under their lease. Advisor will seek judgment and pursue collection against tenant.

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PROPERTY ADVISOR: Lend Lease (formerly ERE Yarmouth)

Anaheim Plaza Shopping Center

In Re Clothestime (1995) STRS Counsel: Cox, Castle & Nicholson. Tenant filed bankruptcy on December 9, 1995 but continues to make payment to STRS and occupy space.

STRS v. Magic Dragon (1996) STRS Counsel: Cox, Castle & Nicholson. Tenant has defaulted on the payments under the lease. Tenant has made partial payment of arrears, which has been accepted by landlord conditional on a reservation of rights to seek possession of the property and a monetary judgment. Tenant had made four successful \$5,000 payments, advisor will continue to monitor payments. Tenant has again defaulted and action has been filed. Stipulation for Judgment has been agreed upon and filed with Court.

STRS v. Chubby's Diner (1997): STRS Counsel: Cox, Castle & Nicholson. Tenant in default under Lease, has vacated premises and filed Bankruptcy. STRS Counsel has been granted relief from the Bankruptcy Court to proceed with Unlawful Detainer action. Default judgment obtained against defendant; will attempt to enforce money judgment against defendant.

STRS v. Baskin Robbins (1997): STRS Counsel: Cox, Castle & Nicholson. Tenant has defaulted under lease via non-payment of rent. Unlawful Detainer action was commenced against tenant to regain possession and seek monetary judgment against tenant.

STRS v. Kenny Rogers Roasters (1997): Cox, Castle & Nicholson. Tenant is in default of Lease for non-payment of CAM charges and rent. Legal action has been initiated to regain possession of the premises and will seek monetary judgment against franchisee and guarantor Roasters Corporation. Tenant has filed for Bankruptcy protection and a proof of claim has been filed on behalf of STRS in the bankruptcy case.

Davies Pacific Center

STRS v. Legacy Mortgage (1997) STRS Counsel; Bendet, Fidell, Sakai & Lee. Tenant breached lease through non-payment of rent. Complaint for possession and monetary judgment has been filed. Stipulated judgment for Writ of Possession and monetary judgment (\$76,987.00) has been signed by tenant. Tenant vacated building and made \$3,000 payment on judgment. Advisor will continue to execute judgment against tenant's assets.

Joe Pacific Shoe Repairs v. STRS, et al. (1997) STRS Counsel: to be determined - appointed by insurance company. Plaintiff alleges breach of lease commitment by property manager of STRS. STRS will be indemnified for all costs and judgments by insurance carrier of leasing agent. Case has been scheduled for trial and depositions and discovery continuing in preparation for trial.

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STRS v. GMP Associates (1997) STRS Counsel: Bendet, Fidell, Sakai & Lee. Tenant breached lease via non-payment of rent. Court has issued Writ of Possession and monetary judgment. Receipt of \$135,472 has been received from tenant and advisor will continue to attempt to collect remaining arrearage. Advisor received additional sum of \$25,000 in January, 1998. Tenant has vacated space and Advisor will garnish tenants bank accounts for remainder of judgment.

Pan Am Building

STRS v. Classic Creations (1998) STRS Counsel: Bendet, Fidell, Sakai & Lee. Tenant defaulted on Lease via non-payment. Unlawful Detainer initiated and tenant has paid all arrearages and reimbursed STRS for all attorneys' fees and costs. Advisor will continue to closely monitor tenant's lease obligations.

STRS v. Ocean Express (1998) STRS Counsel: Bendet, Fidell, Sakai & Lee. Tenant defaulted on Lease via non-payment. Unlawful Detainer filed resulting in STRS regaining possession of space. Pre-trial conference scheduled to pursue monetary judgment against tenant.

1120 19th Street

In Re Thomas Enterprises, Inc. (1992) STRS Counsel: Hazel & Thomas, P.C. Tenant bankruptcy. Relief sought: \$70,000. Chapter 11, issue over 4 parking spaces which tenant gave up with lease for Suite 700. Creditors objected to disclosure statement. Once disclosure statement revised and approved, plan will be circulated for creditors approval.

Southrail Business Park

STRS v. Song dba Woo-Ri (1997) STRS Counsel: Procopio, Cory, Hargraves & Sabitch. Tenant has defaulted under Lease via nonpayment of rent. Tenant has vacated space and filed for Bankruptcy. Collection of arrearage unlikely but advisor will file claim on behalf of STRS in Bankruptcy proceeding.

STRS v. Dundee (1998) STRS Counsel: Procopio, Cory, Hargraves & Sabitch. Tenant has defaulted under lease. Judgment obtained for money and possession. Possession of space has been regained by STRS. Advisor will attempt to collect money judgment from tenant.

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Riverbend

Elbe v. STRS (1994) STRS Counsel: Delaney, Zemetis, Donahue & Durham (appointed by insurance company) Alleged slip and fall by an employee of tenant. The complaint was served in July, 1996. STRS Counsel has filed answer and cross-complaint against a cleaning company. Discovery is proceeding with deposition of plaintiff scheduled. STRS Counsel will assess case after deposition of plaintiff.

Santa Clara Industrial

Lopez v. STRS, et al. (1993) STRS Counsel: Jones, LaMore, Brazier and Riddle (retained and paid by insurance company). Personal injury action for alleged slip and fall due to leak on roof. Matter being handled by insurance carrier.

Quarry Shopping Center

STRS v. Partyland (1997) STRS Counsel: Schenk, Annes, Brookmen & Tepper. Tenant has requested early termination of lease which landlord has denied (lease language does not allow an early termination). Attorneys are negotiating settlement to avoid litigation.

Non-Real Estate Investment Related Litigation

Integra Realty Resources, etc. and et al. v. Fidelity Capital Appreciation Fund, et al.

U.S. Bankruptcy Court of Colorado

Plaintiffs' Counsel:

STRS Counsel: Irene Tamura, Deputy Attorney General

This is a class action, of which STRS is a likely member, filed against several hundred shareholders of Integra, a company now in Bankruptcy. STRS owned shares of Integra through its Extended Market Fund. Through a series of complex mergers, buyouts culminating on January 3, 1989, in a spinoff by Integra of the stock it owned in a subsidiary, STRS became the owner of 13,649 shares of ShowBiz Pizza with an assigned value of \$156,000. (The original cost of the Integra shares which were replaced by the ShowBiz shares was \$267,000. Thus, STRS suffered a paper loss of approximately \$111,000.) This action, brought by the trustee for several creditors of Integra, maintains that the spinoff was a conveyance in fraud of the creditors. The payer is to reverse the transaction or to reimburse Integra for the value of the fraudulently conveyed asset together with attorneys' fees. As a result of a motion brought by a majority shareholder, the Bankruptcy Court has appointed counsel for Fidelity Capital Appreciation Fund who shall provide a defense on behalf of the class of defendant's.

There is presently before the court a settlement offer which will be voted on by the class of defendants of which STRS is a member and subject to court approval.

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CalMicro Devices Litigation (1995) STRS Counsel: Hogan & Hartson by Joseph Hassett. The federal trial court accepted the settlement proposed by the parties. The settlement resulted in the savings of many millions of dollars in attorneys' fees. Although issues involving the former CEO of the corporation may need to be litigated, the principal goal of the System -- a partial settlement that favors the shareholders at a sizable reduction in attorneys' fees - has been achieved. Accordingly the matter will be removed from this report pending scheduling for trial. Staff will revisit the matter in the future when a trial is held.

NASDAQ Litigation (1997) STRS Counsel: Office of the Attorney General. This is a federal class action lawsuit originally filed in 1995. STRS is not yet a party but the case is reported here because much of what is occurring at present will determine whether STRS may be included within the class. The case as currently filed alleges that the NASDAQ market makers -- large brokerage houses -- conspired to maintain an overly wide "spread" in the transaction costs associated with the trading of shares of stocks on the NASDAQ market. The spread in the transaction costs were limited to half points rather than quarter points, a practice that resulted in higher costs. The practice has been referred to as a form of price rigging and occurred from May 1989 to May 1994.

The federal trial court recently held that institutional investors may join the plaintiff class. The court has ruled that five Louisiana retirement systems will act as institutional class representatives.

County of Los Angeles v. STRS (1998) STRS Counsel: STRS Legal Office, Douglas C. Wills. County of Los Angeles approached STRS through its advisor CB Richard Ellis to purchase a small tract of land (1,335 square feet) which was needed by the county to a roadway improvement project known as the Alameda Corridor project. The parties could not agree on the representations and warranties relating to environmental issues and STRS suggested the parcel be acquired through an Eminent Domain action. Parties are in the process of working out a Stipulated Judgment in the action with payment to STRS in the amount recommended by its advisor under the purchase and sale agreement. This matter should be resolved prior to trial.